

THE IMPACT OF THE COMPACTS OF FREE ASSOCIATION ON GUAM, THE NORTHERN MARIANA ISLANDS, AND THE STATE OF HAWAII

Prepared by the Office of Insular Affairs, U.S. Department of the Interior
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1. Background

This report is submitted pursuant to section 104(e)(2) of Public Law 99-239 of January 14, 1985, which requires the President to report to the Congress on the impact of the Compacts of Free Association on the insular areas of the United States and the State of Hawaii. Previous reports were submitted in September 1996, January 1997, January 1998, and March 1999. In addition, a detailed report on "The Status of Micronesian Migrants in 1998 was submitted in January 1999, containing detailed demographic information from special censuses of Micronesia migrants to Hawaii, Guam and the Commonwealth of the Northern Mariana Islands (CNMI).

The primary development in measuring the impact of Compact migrants since the last report to Congress is the availability of Compact Impact reports prepared by Guam, the CNMI, and Hawaii. These reports are included as Appendices to this report.

2. Numbers of Migrants

Censuses of Micronesians conducted with assistance from the U.S. Census Bureau in 1997 and 1998 yielded the following information on the number of migrants from the freely associated states to the U.S. insular areas and the State of Hawaii:

Guam (1997 census of migrants); post-Compact migrants: 5,446; children of migrants: 1,104
CNMI (1998 census of migrants); post-Compact migrants: 1,184; children of migrants: 571
Hawaii (1997 census of migrants); post-Compact migrants: 4,815; children of migrants: 694

These categories provide the best identification of migrants who create an impact on the receiving areas, specifically, those who entered the areas after the Compacts of Free Association were implemented and their children.

The Analysis of Compact Impact Costs for Guam (Appendix I), prepared by the Government of Guam, uses data from the same census reports but identifies 7,280 residents of Guam who are of Micronesian ethnicity, regardless of date of migration. The figure represents about 5 percent of the total population, and appears to have stabilized. Better data will come from the 2000 census.

The CNMI Study (Appendix II), prepared by the CNMI Government, cites a figure of 3,532 Micronesian citizens in the 1980 census, 3,492 in the 1995 census, and 3,118 in a 1997 estimate. The 1998 census of Micronesians counted 2,947 ethnic Micronesians in the CNMI. Thus the Micronesian population appears to have peaked in the CNMI in about 1995. As a percentage of the total population, the Micronesians declined from about 6 percent in 1995 to 5 percent in 1997. Subsequent labor force surveys show a continued decline. A more definitive count will be provided by the U.S. 2000 census.

For Hawaii, the latest census of Micronesians, completed in 1997, reported 4,815 post-Compact migrants and 694 children of migrants. A census of Micronesians in Hawaii was repeated in 1999 to provide an indication of the rate of growth, since there were no available data for Hawaii prior to 1997. Unfortunately, the results of this last census have not yet been tabulated. The January 14, 2000 letter from Governor Cayetano, attached, shows an increase in the number of Federated States of Micronesia and Republic of the Marshall Islands children in the public schools from 1,283 in 1997 to 1,521 in 1999. This indicates that the Micronesian population continues to increase rapidly, in contrast to Guam and the CNMI.

3. Potential Financial Impacts of Migrants

The most significant impact of the freely associated states Compacts is on expenditures of insular area governments and the State of Hawaii to provide educational and social services to migrants from the Compact areas. This impact is of concern to Guam, the CNMI, and Hawaii.

As stated earlier, each of the affected areas has prepared a report or letter to quantify the fiscal impact of the Compacts. The reports from Guam and the CNMI and a letter from the Governor of Hawaii are attached to this report and are summarized briefly below.

Guam:

ANALYSIS OF COMPACT IMPACT COSTS, Fiscal Year Ended September 30, 1997, Prepared by Ernst & Young LLP, September 1999

This report is the product of a grant of \$75,000 from OIA to the Government of Guam in 1997. The authors used methodology very similar to that of reports prepared in previous years by the Government of Guam. The Ernst&Young report showed total costs for 1997 in a range from \$16.1 million to \$17.7 million; of this amount, Education accounted for between \$9.0 million and \$10.6 million, Public Health and Social Services accounted for about \$6.8 million, and Corrections accounted for about \$.3 million.

OIA's report of last year cited a similar total figure of \$17.5 million from a draft version of the same Guam report. For education, the OIA report cited a figure of \$6 million, which was based on school enrollment of 1,327 from the census of Micronesians rather than the enrollment of 2,277 reported by the Guam Department of Education in Guam's report. The difference is at least partly accounted for by the Department of Education's use of ethnicity as a criterion while the census used migration as a criterion. Using the census figure of 1,327 and multiplying by the average per pupil cost of \$4,506 gives a total cost of \$5,979,462.

For Public Welfare, the total impact costs calculated by the Ernst & Young report were \$6,757,000 as a "low" estimate based on the number of program participants from the FSM and RMI less a "baseline" number of pre-compact migrants. Although it would have been more accurate to use the number of participants who had actually migrated, or whose parents had migrated post-Compact, these data were not available. The data used by Guam and by Ernst & Young are probably reasonable, as the great majority of ethnic Micronesian program participants were probably post-Compact migrants.

CNMI:

Study of the Impact of the Compacts of the Freely Associated States on the Commonwealth of the Northern Mariana Islands for Fiscal Years 1997 & 1998, July 1999, prepared for The CNMI Government, Pedro P. Tenorio, Governor, by The Department of Commerce, Frankie B. Villanueva, Secretary

This report is the first such report produced by the CNMI government. It makes use of demographic information from the 1998 census of Micronesians and, to calculate costs to the government, uses both the "direct costs method", utilizing actual costs of providing services to Micronesians, and the "percentage of total costs method", in which a percentage of total costs for certain services were pro-rated according to the percentage of Micronesians in the total population.

For education, the percentage of total costs method was used, with the percentage of post-Compact migrants or children of post-Compact migrants applied to the total local public education expenditure. Thus for 1997, the education cost was 7.61 percent of \$41,016,168, or \$3,122,000.

For other services, the CNMI reports the number of Micronesian participants or recipients of each service multiplied by the average local cost (less Federal funds) of each service. The concept of measuring costs of services is sound, but the methodology is flawed in several important ways:

- The costs used were those for providing services to all ethnic Micronesians, whether or not they had migrated to the CNMI after the Compacts were implemented.

- The number of participants appears to be the number of actual visits; thus, there were 4,432 participants in "immunization", more than the total number of Micronesians in the CNMI.

- The "average cost" of service is identical for most services; for example, the average local cost of immunizations is shown as \$951, the same as hemodialysis or mental health. The total cost of immunizations for Micronesians is thus \$4,290,000, of which only \$73,000 is covered by Federal funds.

An alternative calculation would be to multiply the total local budget for the Department of Public Health by the proportion of post-Compact Micronesian migrants in the total population. This would, however, certainly understate the cost of providing health services to Compact migrants. As a rough compromise, we suggest multiplying the total local health care cost of serving Micronesians by the proportion of those Micronesians who migrated after the Compacts, plus all Micronesian children. This means multiplying \$5.8 million by 60 percent, or \$3.5 million. We emphasize that this amount needs to be much better documented, but until that can be done, it seems reasonable.

State of Hawaii:

Letter of January 14, 2000 from Governor Benjamin J. Cayetano to Ferdinand Aranza.

Governor Cayetano describes the impact of Micronesian migrants on Hawaii's health care system, social services, educational system, and criminal justice system. The letter states, "During the past year alone, the State spent well over \$14 million in public funds to care for Compact migrants." The Governor's supporting documents show that the total impact is in the same order of magnitude as in Guam and the CNMI. Data provided by the Hawaii Department of Education show that the impact cost in 1999 was \$9.2 million and that this figure has been increasing rapidly. In addition, expenditures for welfare payments to Micronesians were about \$1.7 million in 1999 and \$.7 million for treatment of infectious diseases, medicaid, and community health nursing services. Thus, the total expenditures for education, health, and welfare expenditures by Hawaii for Micronesians were at least \$11.6 million in 1999, excluding higher education, criminal justice, private health providers, and other smaller programs. Note also that medicare costs to the state are rising rapidly, with recent estimates of \$2.9 million in 1999 and \$6.2 million in 2000.

Letters attached to the Governor's letter also indicate a serious problem that is distinct from those faced by Guam and the CNMI: Private health providers are faced with unpaid bills resulting from care given to Micronesia migrants as well as patients referred from the Marshall Islands and Federated States of Micronesia. Although these amounts are not as great as the costs borne by the State Government, they indicate an additional dimension to the impact problem.

Governor Cayetano suggests dealing with Compact impact through the mechanism of Compact renegotiation, stating, "If it would be easier for Congress to redress Compact impact on Hawaii as part of the renegotiation process rather than the annual budget process, we have no objection to that procedure." We strongly agree with his request that representatives of Hawaii should be consulted during the renegotiation process, and we believe that the negotiators are consulting with Hawaii, Guam and the CNMI.

4. Summary of "Impact Costs":

The affected areas have made significant efforts, with technical assistance from OIA, to quantify their impact costs. Guam's reports have attempted to cover the period since 1986 and have been produced annually. The CNMI and Hawaii have only recently begun to quantify impacts. Reports by all three areas document impacts, although their methodologies are not consistent internally or with one another. In an effort to report Compact fiscal impacts on a consistent and well-documented basis, this report uses data from the affected governments to establish "core" impact costs. These are limited to costs for primary and secondary public education, and public health and welfare programs. They are also limited to services provided to post-Compact migrants and their children to the extent their numbers can be identified or estimated. They are also net of Federally funded programs to the extent these can be measured or estimated. They are not offset by any positive impact, such as expenditures or tax payments made by freely associated states migrants.

Following are our best estimates of recent fiscal impact costs:

	<u>Public Education</u>	<u>Health and Welfare</u>	<u>Total</u>
Guam, 1997	6.0	6.8	12.8
CNMI, 1997	3.1	3.5	6.6
Hawaii, 1999	9.2	2.4	11.6

5. Federal Appropriations:

The President's budget for FY 2001 includes \$10 million (an increase of \$5 million in FY2000) in annual impact aid to Guam indefinitely to reimburse Guam for most of the impacts. There is currently no Compact impact appropriation for the CNMI or Hawaii.

6. Federal Programs:

Section 104(e)(1) of P.L. 99-239 states; "In approving the Compact, it is not the intent of the Congress to cause adverse consequences for the United States territories and commonwealths or the State of Hawaii." Unfortunately, the 1996 Personal Responsibility and Work Opportunities Reconciliation Act (PRWORA) had the effect of making Micronesian migrants ineligible for many federal programs, particularly in the area of health. This effect was in conflict with the intent of the Congress expressed in P.L. 99-239. Technical amendments subsequently passed by the Congress did not include Compact migrants among those legal immigrants for whom benefits were restored.

7. Recommendations:

1. We recommend passage of the provision in the administration FY 2001 budget to provide a total of \$10 million for compact impact mitigation for Guam on an indefinite basis.
2. We recommend that federal agency programs that affect Micronesian migrants be used to the maximum extent possible to alleviate the burden on local agencies in Guam, the CNMI and Hawaii.
 - o We continue to support amendments to the Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA) of 1996, that would restore the eligibility of citizens of the Freely Associated States for many federal welfare programs, particularly Medicaid.
 - We recommend evaluation of the caps on federal grant programs in insular areas (specifically Guam and the CNMI) with the objective of increasing the availability of federal support programs for both migrants and permanent residents of impacted areas.
 - We recommend that the Interagency Group on Insular Affairs (IGIA) examine Federal grant programs to identify any unutilized or under-utilized programs that could benefit Micronesian migrants and/or local agencies whose programs are strained by the increased demand from such migrants.
3. We recommend that United States negotiators in the current renegotiation of the Compact of Free Association with the Federated States of Micronesia and the Republic of the Marshall Islands should consult closely with the government of Guam, the CNMI and State of Hawaii to make certain that impacts on these U.S. areas will be considered as any new agreement is reached.
 - Compact assistance should be directed at improving health care, educational opportunities and economic development in the freely associated states in order to discourage migration to U.S. areas. Thus, if citizens of the freely associated states do eventually migrate, they will not overburden the existing infrastructure systems upon arrival since they will be healthier and better educated.
 - A funding mechanism to cover direct impacts of migrants on health, welfare and education facilities should be considered. Until changes in the Compacts can be implemented, Federal agencies should provide discretionary grants to Hawaii, Guam and the CNMI in order to reduce the burden on those governments' service providers.